

**The 24th Annual IRSPM Conference,
Public Management, Governance, and Policy in Extraordinary Times: Challenges and
Opportunities**

20th - 23rd April 2021

Accounting and Accountability SIG Panel P26

**“Accounting for extraordinary times – ensuring accountability in
extraordinary times”**

Title:

Local authority financial reporting and external audit in England: the Redmond Review and the future of Local Audit

Authors:

Pete Murphy, Peter Eckersley, Katarzyna Lakoma, Bernard Kofi Dom, Martin Jones.
Nottingham Business School, Nottingham Trent University.

Abstract:

Academics and auditors have expressed growing concerns about the financial resilience and vulnerability of English local authorities after a decade of funding cuts and growing demand for public services (Barbera *et al* 2017; CIPFA 2017; Sandford 2020). The COVID-19 pandemic has exacerbated these problems, as local authority income has fallen, demand for services has risen and investments in assets and companies have proven less rewarding in uncertain times. (Murphy *et al.* 2021).

There is a widespread consensus that arrangements for public audit and formal assurance to the public and key stakeholders are no longer fit for purpose thereby increasing uncertainty amongst all key stakeholders and increasing the risk of severe financial problems within local authorities (Murphy and Lakoma 2020). In response to these growing concerns, the UK Government established an independent review of local authority audit (Redmond 2020). This has been complemented by the release of an updated Code of Audit Practice from the National Audit Office (2020), which sought to guide auditors in how to address financial sustainability. The subsequent Redmond report articulated the widespread concerns about the adequacy and transparency of local authority audit and accounts arrangements. It found new local authority activities such as new commercial and hybrid organisations fell outside of the scope of the statutory audit and it acknowledged the widening ‘expectations gap’ in what the public expect from the audit and what it is actually obliged to deliver (ICAEW 2018). In terms of the overall audit regime Redmond (2020) also found an inadequate regulatory

framework, delivered by an overly complex and disparate organisational landscape having no single regulatory authority responsible for systemic leadership, oversight and co-ordination.

In December the UK Government published its response to the report's recommendations. This paper reviews the Redmond report, the government's formal response to its recommendations and subsequent progress with implementation in the period prior to the conference. In so doing it will be cognisant of and review its potential compliance with the INTOSAI Financial Audit Guidelines based on the International Standards on Auditing (ISA) issued by the IAASB.

Key Words: Public Audit, Local Government, Independent Review, Financial Resilience, Value for Money.

1. Introduction

Academics, auditors, professional and assurance bodies have expressed growing concerns about the financial resilience, sustainability and vulnerability of English local authorities after a decade of funding cuts, growing demand and other pressures on public services (Barbera et al 2017; CIPFA 2017; Sandford 2020). In the UK, local authority financial support from central government has been significantly reduced in real terms and in comparison, to most other public services by successive Spending Reviews between 2010 and 2020) which have been translated into Local Government Financial Settlements (NAO 2018,2021, HMT 2020).

From 2014 the local auditing and financial reporting arrangements were also significantly revised by the Local Audit and Accountability Act 2004 which coincided with changes to the HMT model for distributing the Local Government Financial support from central government through an annual 'settlement'. The new distributional model 'locked in' the structure and pattern of distribution of central government revenue support to local authorities, based on the pattern of distribution at that time. (Amin-Smith 2019). This meant that an already suboptimal and regressive tax would inevitably become more regressive and unfair over time, as it would not react to changing circumstances (Ogden and Phillips (2020).

By 2016 the government had already accepted that major parts of the calculation of central government financial support arrangements upon which the distribution of revenue support to local authorities were based were inadequate and unfair. The government therefore agreed to work with local government and its representatives (primarily but not exclusively the Local Government Association and CIPFA) to establish a "Fair Funding Review". This was intended to set new baseline funding allocations for local authorities following an up-to-date assessment of their relative needs and resources, using the best available evidence (DCLG 2016). Originally it was to be completed by 2018 and implemented by 2020. By 2018 it had been extended but had agreed the use of three core components as the main 'cost drivers' namely 'population', 'deprivation' and 'sparsity', together with additional cost drivers related to specific individual local authority services. However, five years after it commenced, this review has still not completed its work and it is increasingly seen as partial and inadequate for the long-term (Travers 2021, Murphy and Eckersley 2020).

The COVID-19 pandemic has of course exacerbated these problems in two broad ways. Firstly, it has resulted in two further short term and largely reactive LGFSSs. These have meant local authority income has fallen further, while demand for services (particularly in Social Care, Public Health and Housing Services) has risen significantly while investments in assets and companies have proven less rewarding in uncertain times. (NAO 2020a, Ogden and Phillips 2020, Murphy *et al.* 2021). Secondly COVID response has been made more difficult by uncertainty over central government reimbursement of costs incurred, non-reimbursement of certain costs and late confirmation of support that has all led to inadequate time for effective planning and subsequent delivery of COVID support (LGA 2021, PAC 2021) There had also been a growing parallel acknowledgement that arrangements for public audit and formal assurance to the public and key stakeholders were also inadequate and no longer fit for purpose (ICAEW 2018, Kingman 2018, Murphy and Lakoma 2020 NAO 2021a 2021b). This led to increasing uncertainty amongst all key stakeholder and increased the risk of future financial problems within local authorities. In 2019 the NAO reported that

‘qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high’

(NAO, 2019, p. 8)

Redmond was also the fifth high level review into the operation of financial services in England in the last three years. It followed Sir John Kingman’s (2018) review of the Financial Reporting Council, the Competition and Markets Authority’s (2019) study of the statutory audit market, Sir Donald Brydon’s (2019) on the quality and effectiveness of private sector audit and Rand Europe’s scoping review of local audit for HMCLC (2018). All found significant and, in some areas, fundamental inadequacies with the Kingman report suggesting that Local Public Audit was so fundamentally different from private sector audit that it required a bespoke independent review by a public sector specialist. In 2019 the government commissioned an independent review of local authority audit to be led by Sir Tony Redmond a former Local Authority Chief Executive and Past President of CIPFA (Redmond 2020).

The research question for the overall research project of which the current paper forms an initial part is “has the Redmond Review resulted in fit for future purpose Local authority financial reporting and external audit arrangements in England that are also compliant with INTOSAI Financial Audit Guidelines”. This paper explores what has happened to date focusing in particular on the contents of the Review and the UK Government’s response to its recommendations.

2. The Redmond Review.

Appointed in July 2019, the Redmond review published a consultation document in September 2019 (Redmond 2019). The consultation sub-divided the issues relating to local

public audit and invited comments in two parts, namely Strategic Issues and Technical Issues. The former was articulated in part 1 which consisted of two chapters and posed 9 questions for consultation, the latter consisted of 7 chapters and a further 34 questions.

More fundamentally in the foreword to the document and in the objectives of the review that follow there is an important ‘nuance’ that is critical to understanding the scope of the review, the response it received and the subsequent importance of the review. The foreword stated

“This call for evidence is a key part of the review in determining whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. I will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils.”

(Redmond 2019 p. 3).

The review objectives, are worth quoting in full but with a key issue emphasised

“The Review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework in order to determine:

- Whether the audit and related regulatory framework for local authorities in England ***is operating in line with the policy intent set out in the Act*** and the related impact assessment.
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils.
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.”

(Redmond 2019 p. 4)

The inclusion of the words ‘policy intent’ set out in the act rather than merely ‘operating in line with the act’ significantly changed the scope, the response, and the impact of the review. It allowed respondents to take a more holistic, comprehensive and/or system-wide approach to their responses.

Although the full set of responses have not been formally published by MHCLG a number of key interested parties (as well as one of the authors) have made their responses publicly available (ICAEW 2019, CIPFA 2019, LGA 2019, Murphy 2019). Appendix 8 of the final report does include information on the number and origin of representations and there are also some summaries of responses to the individual questions in the main report. The review conducted over 100 interviews and receive representations from 156 sources which are summarised in table 1

22	Audit and Audit Stakeholders (such as CIPFA, Welsh Audit)
87	Individual Local Authorities (including all types of authorities)
9	Authority Groups (such Societies of Treasurers)
26	Individuals
12	Others (including the media, academics, and specialist interest groups)

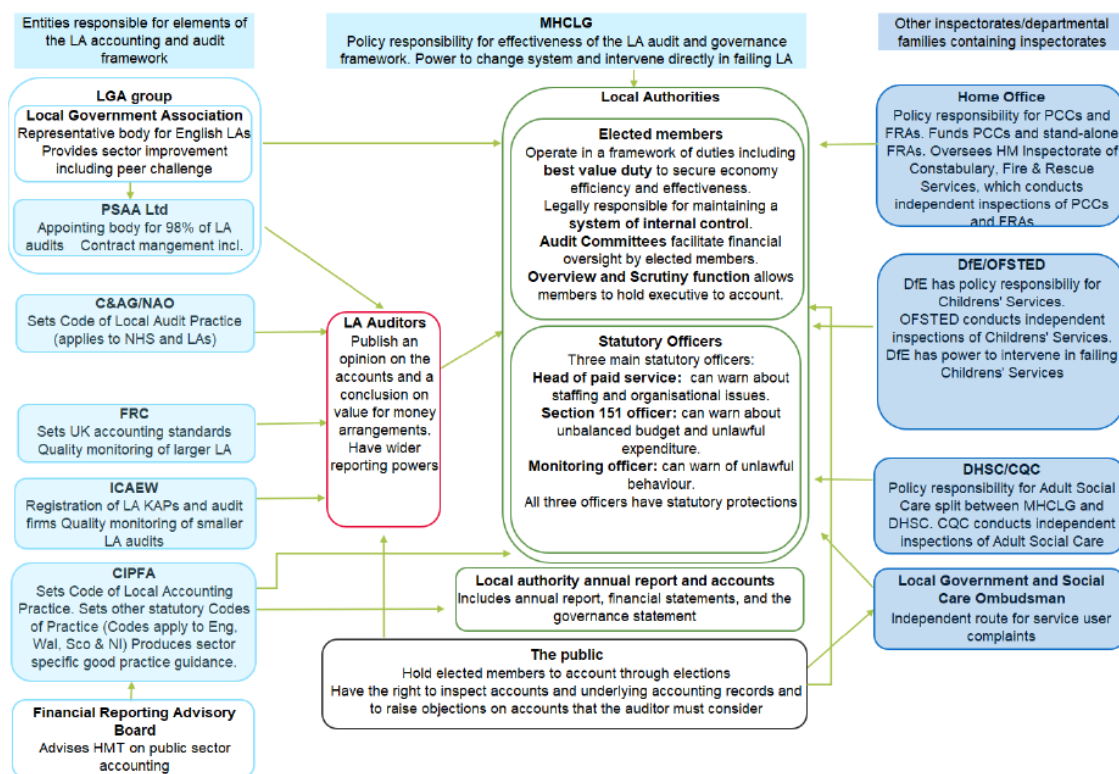
Table 1 Representations received (Source: Appendix 8 Redmond 2020).

The final report and its 8 appendices were published in September 2020 (Redmond 2020). By this time the NAO had published its revised Code of Audit Practice (NAO 2020b) reflecting the fact that the concepts of financial sustainability and financial vulnerability had been widely accepted as part of the auditors' professional lexicon.

Figure 1 below shows the complexity of the organisation landscape and the roles of interested parties within it in 2018/19

Figure 2.1

The Local Authority Governance, Audit and Accounting Framework 2018-19



The main report was organised into 9 chapters, it included 23 recommendations, and these were grouped under the following four headings, although the nature and regulation of the Small Authorities Audit (Town and Parish Councils, Internal Drainage Boards etc) lie outside the focus of this paper.

- External Audit Regulations
- Financial resilience of local authorities
- Transparency of financial reporting
- Smaller Authorities Audit Regulation

The outstanding characteristic about the representations received was the high level of agreement across the respondents and across the sector. This was a characteristic of some of the most potentially contentious and important areas and recommendations for change. There was for instance surprising agreement about the inadequate level of fees and the malfunctioning of the current audit market. You might, for example, have expected the local authorities to argue for the maintenance or lowering of fees, and the audit firms to defend the current audit market. In fact reductions in the fees had led to firms devoting less time to audits, profit levels were so low as to deter individuals and firms from entering the market and both firms and authorities were finding it hard to attract and retain high quality staff specialising in local audit (Redmond 2020, Lakoma and Murphy 2020).

One of the key features illustrated by figure 1 from the final report is the absence of system leadership at the national level with no single designated organisation to co-ordinate all stages of the audit. There are six different entities with statutory responsibilities in the regulatory framework, and this is further complicated by differing parts applying to different sectors and inconsistency with the arrangements in Scotland, Wales, and Northern Ireland. None of the existing bodies have a system leadership role nor the statutory duty to ensure it operates in a coherent or joined-up way.

As the Kingman report had previously commented:

“The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks”.

(Kingman 2018 p. 69)

A large majority of respondents (82%) wanted a single regulatory body. Redmond did consider whether any of the existing bodies should be asked to develop this role but concluded that a new body the Office of Local Audit and Regulation (OLAR), should be established to act as a single regulatory body. He calculated the additional cost at £5m per annum because most functions and employees would be transferred from exiting bodies under TUPE arrangements.

Neither the financial audit nor the value for money audits contain any opinion on either financial sustainability or the financial resilience of local authorities (Murphy and Lakoma 2020), although the public assumes and expects that they do (ICAEW 2018). Redmond and 91% of respondents are clear that they should. In fact, 87% of respondents thought that the current “going concern” assessment in the audit is completely meaningless in a local government context. It also offends against the auditor’s commonly held maxim “do they say what they do and do what they say”. Redmond finds them wanting on both counts and recommended that the scope of audit should include a substantive test of a local authority’s financial resilience and sustainability.

One final point is worth noting before examining the governments’ response to the final report. It is strongly suspected that Redmond was discouraged from making recommendations that required changes to exiting legislation and in particular the Local Audit

and Accountability Act 2014. That act was directly responsible for either introducing or extending major inadequacies in the local audit arrangements and fragmenting the system (Melville D 2020). In his letter to the Secretary of State submitting his review and printed within the review he states

“It will be possible to achieve part, but only part, of what needs to be done without legislation. However, it is important to emphasise that to fully achieve the vision set out in the Review, primary legislation will be essential. Only this can give the new organisation the tools it needs to do its job and to rebuild the sustainability of the local audit market”.

(Redmond 2020 p.1)

3 The Government’s response.

The government’s response to the Redmond Review was published as a policy paper on the 17th December during a national lockdown and shortly before Parliament rose for the Christmas break (MHCLG 2020). Regular watchers of government policy communication would normally have been pessimistic about its contents as a result of the longstanding and dishonourable British tradition of this day being “a very good day to bury bad news” which the American’s refer to as “take out the trash day”¹.

In fact, the governments’ response was surprisingly supportive of Redmond’s recommendations given its earlier position of trying to limit the scope and focus of the review. In their published formal response they rearranged the groupings of the 23 recommendations and their response to individual recommendations (under some new headings) so as to align with their political agenda and communications strategy they wished the future discussion on roll-out and implementation to focus on. The five groups of recommendations were corralled under five subject areas which we have paraphrased as.

- Operation of the local audit markets
- National Leadership and Regulation
- The functioning of local audit and local governance
- Improving transparency
- Changes to the small bodies’ arrangements

Although this is reflected in the formal policy paper itself, it became much clearer from the communications and media reception and the subsequent discourse that followed. The formal policy paper however provides us with a very helpful table as Annex A summarising the governments’ response. This is reproduced below without the four recommendations relating to the functioning of local audit for smaller bodies (14, 15, 16, 23) which are outside the scope and focus of this paper and have therefore been omitted. The governments’

¹¹ Bernard Ingham advised Mrs Thatcher to announce bad news stories on successive days, so the media is distracted by the first announcement. Another example was Press Officer Jo Moore in the Department of Transport who, immediately after 9/11, told her team: “*It’s now a very good day to get out anything we want to bury*”. The American political drama ‘The West Wing’ referred to it as “Take out the trash day.”

response to these recommendations did however follow the pattern of the responses to the main recommendations.

By presenting their response in this form it becomes clear that the government essentially accepted or agrees in principle to all of the recommendations relating to the inadequate form and functioning of local public audit; the malfunctioning local audit market; the inadequacy of the fee structure; the need for much greater transparency to all key stakeholders (most notably the public) and the need to make smaller and simpler changes in the arrangements for the audit of small bodies. The recommendations it didn't accept at this stage were all the reports' recommendation which would affect the roles and responsibilities for bodies operating at the national level and establish a new body the 'Office of Local Audit and Regulation' to lead, regulate and manage local audit. These recommendations would affect a number of national institutions including MHCLG itself. The response advised that the government were "considering these recommendations and would make a full response in Spring 2021". This might appear to give the impression of a reflective and deliberative government weighing up the options. It was however accompanied by a communications campaign that focused relentlessly upon two issues.

Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)	
Recommendation	MHCLG Response
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Agree; we will work with key stakeholders to deliver this recommendation
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	Agree; we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	Part agree; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Part agree; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	Agree
Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)	

<p>1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities</p> <ul style="list-style-type: none"> - procurement of local audit contracts - producing annual reports summarising the state of local audit - management of local audit contracts - monitoring and review of local audit performance - determining the code of local audit practice - regulating the local audit sector 	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>2. The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> - Public Sector Audit Appointments (PSAA) - Institute of Chartered Accountants in England and Wales (ICAEW) - FRC/ARGA - The Comptroller and Auditor General (C&AG) to be transferred to the OLAR 	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)</p>	
<p>4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> - an annual report being submitted to Full Council by the external auditor - consideration being given to the appointment of at least one independent member, suitably qualified, to 	<p>Agree; we will work with the LGA, NAO and CIPFA to deliver this recommendation</p>

the Audit Committee - formalising the facility for the CEO, Monitoring Officer - Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.	
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	Agree; we will work with the NAO and CIPFA to deliver this recommendation
12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.	Agree; we will work with the LGA, NAO and CIPFA and other key stakeholders to deliver this recommendation, including whether changes to statute are required
18. Key concerns relating to service and financial viability be shared between local auditors and inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor’s annual report.	Agree; we will work with other departments and the NAO to deliver this recommendation
Improving transparency of local authorities’ accounts to the public (recommendations 19, 20, 21, 22)	
19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.	Agree; we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation
20. The standardised statement should be subject to external audit.	Agree; we will work with CIPFA, the LGA and the NAO to deliver this recommendation
21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.	Agree; we will work with the LGA and CIPFA to deliver this recommendation
22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.	Agree; we will look to CIPFA to deliver this recommendation

Table 2 Summary of recommendation excluding those for smaller bodies (Source MHCLG 2020a).

The press release to accompany the publication on 18th December gave a clear indication of the first issue in the governments subsequent approach in the prominence it gave to the abolition of the Audit Commission (MHCLG 2020b). It stated, “the abolition of the Commission

centralised audit regime and its top down inspection was estimated to save taxpayers £1.2 billion over 10 years.” Multiple statements from national and local politicians followed presenting the proposed OLAR as the trojan horse that would bring back the leviathan Audit Commission “We do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission.” (MHCLG 2020a).” We do not need to recreate the Audit Commission” parroted the LGA on the same day (2020).

The second issue noted by the policy paper was the “the creation of a new overarching body would mark a significant departure from the 2014 Act” and, referring to a Cabinet Office handbook of 2018, it stated

“it is government’s long-standing intention not to create new arms-length bodies. Unless there is an exceptional reason for a new body, government should look to explore other options for delivering new services or functions, and we are not currently persuaded that a new arms-length body is required.”

(Cabinet Office 2018)

At the time of drafting this development paper the full response has not yet been issued.

4 Discussion

The third and final purpose of this paper is to monitor and critically appraise the progress with implementation of the Redmond recommendations in the period prior to the conference.

The fitness for purpose of the new regime will only become apparent when the response to all of the recommendations are implemented but for this interim appraisal, we are examining progress to date. In so doing we have grouped the recommendations into four groups as follows are: -

- Recommendations that government has agreed to implement itself (6, 10 and 11)
- Recommendations that the government is looking to CIPFA to implement (19, and 22)
- Recommendations that the government is committed to working with one or more of LGA, NAO CIPFA FRC and ICAEW (4, 5, 8, 9, 12, 20 and 21), and
- Recommendations that government is considering and will make a full response by spring 2021 (1, 2, 3, 7, 13, and 17).

In addition to the number of organisations involved we are mindful of level of unanimity between key stakeholders in their response to the original consultation; the complexity of implementing individual recommendations; the importance of recommendations to the overall local audit regime and the sensitivity of the issues involved. The sensitivity, for instance includes the degree of sensitivity surrounding individual recommendations; whether they generate political sensitivities and that includes political sensitivities with either a small p or a capital P. Political sensitivities with a small p include individual or inter-organisational sensitivities, those with a large P include those between elected politicians that are directly part of the decision making process, and the government and opposition.

These considerations will of course vary within and between individual recommendations and the four groups of recommendations and they will undoubtedly change over time, but if you broadly support the general objectives of Redmond's recommendation (as the authors do), and wish to see efficient and effective implementation there are indications or reasons to be optimistic as well as a few areas of concern.

The recommendations that the government has agreed to implement and that require no external assistance or external advice (No 6 revision of the for local audit fee structure, and No 10 and 11 changes to the deadlines for publication) implementation has commenced. They do require internal consultations within government of with Non-Departmental Public Bodies, but we are informed that the latter have commenced.

The two recommendations (19 and 22) that the government are looking to CIPFA to deliver namely the format of a standardised statement of service information and costs (subject to appropriate consultation) are also underway.

The third group of recommendations are both more complex and progress appears to be more varied. The devil of course will be in the detail, but it is notable that, in addition to the government, recommendation 9 (the role of internal audit) only involves the NAO and CIPFA both of whom in either their submission to Redmond and/or in public statements clearly support the propose enhanced role. Similarly, recommendation 8 (facilitating more firms to undertake local audit work) involves only two external organisations, the ICAEW and the FRC both of whom support the change. In this case implementation will take longer if changes in statute are required which has not as of yet been determined. Four out the five remaining recommendations (4, 12, 20 and 21) relating to council governance and reporting, involve the same four stakeholders namely government, the NAO, the LGA and CIPFA, who were all in favour of these changes. In addition, the NAO has already published the new Code of Audit Practice (NAO 2020) to complement the proposed changes and Redmond helpfully provides examples and guidance on 'how to do it' and not just 'what to do' (see for example Annex 4 Illustrative Simplified Financial Statements'). The final recommendation in this group (5) is a long-term training and skills recommendation addressed to all stakeholders.

This leaves the final group of recommendations of interest to this paper relating to 'systems leadership' where the governments' response is awaited. As England has already entered electoral 'purdah' there can be no more statements on this issue until after the local elections in May.

As final reflections on the progress to date it is notable that Implementation has been compartmentalised and is underway; that contestable and non-contested issues have largely been separated, key stakeholders have been brought into the implementation stage, and the government appears to have largely given up defending most of the inadequate parts of the baleful Local Audit and Accountability Act 2014.

5 Emerging conclusions

- The level of unanimity among key stakeholders around key issues and the acknowledgement of significant conceptual and practical changes in the new Code of Audit Practice from the NAO (the consultation process for which included government and practitioners) suggests that significant change is underway. Although for some recommendations the devil will be in the detail it looks as though radical changes/improvements are emerging in relation to the audit market, the local audit, and the transparency of the local audit (and the small bodies audit although that is outside the scope of this paper).
- The emerging concepts of financial resilience, sustainability and vulnerability have clearly been acknowledged and will be incorporated into the new arrangements. The scope of the audit will be widened to cover new commercial and hybridised forms of local authority activity and the 'expectations gap' diminished so that what the system actually provides and what the public assumes it provides are much better aligned.
- It is too early to tell what the governments apparent position over system leadership will result in. The official response appeared to accept that system leadership needed to improve and that a single body may be required but only committed MHCLG to "explore the full range of options including close consideration of whether existing bodies could take on this function" and was "not currently persuaded that a new arms-length body is required" although "we do not want to risk re-creating an organisation similar to the Audit Commission"

References

Amin-Smith, N. (2019) *Oral evidence to the Housing, Communities and Local Government Committee's Local Government Finance and the 2019 Spending Review inquiry*. London: Parliament TV.

Barbera, C., Jones, M., Korac, S., Saliterer, I. and Steccolini, I., 2017. Governmental financial resilience under austerity in Austria, England and Italy: How do local governments cope with financial shocks? *Public Administration*, 95(3), pp.670-697.

Brydon, D. (2019). *Assess, assure and inform: Improving audit quality and effectiveness report of the independent review into the quality and effectiveness of audit*. BEIS and TSO.

Cabinet Office (2018). *Public Bodies Handbook – Part 2 The Approvals Process for the Creation of New Arm's-Length Bodies: Guidance for Departments*. London: TSO.

Chartered institute of Public Finance and Accounting. (2017) *Building financial resilience: managing financial stress in local authorities*. London: CIPFA.

Chartered institute of Public Finance and Accounting. (2019) *Response from the Chartered Institute of Public Finance and Accountancy (CIPFA) December 2019* Available at [Local Government Consultations | CIPFA](#). Accessed 21 March 2021].

Competitions and Markets Authority. (2019). *Statutory audit services market study*. CMA

DCLG (2016). *Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution*. July 2016. London: DCLG.

Eckersley, P. and Lakoma, K., 2021. Straddling multiple streams: focusing events, policy entrepreneurs and problem brokers in the governance of English fire and rescue services. *Policy Studies*. ISSN 0144-2872

HM Treasury (2020) Spending Review 2020 London: TSO.

ICAEW (2018). *Local public audit: expectations gap: A Special Report* (Better Government Series. London: ICAEW.

ICAEW (2019). *Representation 128/19 Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England* Available at [icaew-rep-128-19-redmond-review-on-lg-financial-reporting-and-external-audit-in-england.ashx](https://www.icaew.com/~/media/Files/Policy/Representation/128-19-Redmond-Review-into-the-arrangements-in-place-to-support-the-transparency-and-quality-of-local-authority-financial-reporting-and-external-audit-in-england.ashx) [Accessed 21st March 2021].

Kingman, J. (2018). Independent review of the Financial Reporting Council. BEIS and TSO

Lakoma, K., and Murphy, P. (2020) Can internal audit help to transform the form and focus of public sector audit? *Audit & Risk*, IIA57 (Jan 21), pp. 60-63.

Local Government Association (2019) *Response to call for views 18 December 2019*. Available at [Submission - LGA \(local.gov.uk\)](https://www.local.gov.uk/submissions/2019/12/18). [Accessed 21 March 2021].

Local Government Association (2021) COVID-19: local government finance: Written evidence submitted by LGA Available at <https://committees.parliament.uk/writtenevidence/23592/pdf/> [Accessed 22 March 2021].

Melville, D. (2020) *Redmond Review: Towards a better audit*. Public Finance Available at [Redmond Review: Towards a better audit | CIPFA](https://www.cipfa.org.uk/redmond-review-towards-a-better-audit) [Accessed 22 March 2021].

MHCLG (2020a). *Policy Paper: Local authority financial reporting and external audit: government response to the independent review*. London: TSO

MHCLG (2020b). *Press release: Government publishes response to audit review. 18 December 2020*. Available at [Government publishes response to audit review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/government-publishes-response-to-audit-review). [Accessed 22nd March 2021].

Murphy, P., (2019). *A submission to the independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Redmond Review)*. Nottingham: Nottingham Trent University.

Murphy and Eckersley (2020) *The spending review and local government finance*. London: Housing, Communities and Local Government Committee, House of Commons.

Murphy, P., Eckersley, P., Lakoma, K. and Dom, B, K, (2021). *Local authority financial sustainability and the Section 114 regime*. Submission to Ministry of Housing Communities and Local Government Select Committee. House of Commons, January 2021.

Murphy, P., and Lakoma, K. (2020). Local audit no longer fit for purpose? *FIRE* (Nov 20), pp. 28-29.

NAO (2018). *Financial Sustainability of Local Authorities 2018*. London: NAO.

- NAO (2018). *Financial sustainability of local authorities 2018 visualisation*. London: NAO.
- NAO (2019). *Local auditor reporting in England 2018 HC 1846* London: TSO.
- NAO (2020a). *Local authority investment in commercial property*. London: NAO.
- NAO (2020b). *Code of Audit Practice*. London: NAO.
- NAO (2021) *Local government finance in the pandemic*. London: NAO.
- NAO (2021b) *Timeliness of local auditor reporting on local government in England, 2020 HC 1243*. London: NAO
- Ogden, K., and Phillips D. (2020) *The financial risk and resilience of English local authorities in the coronavirus crisis*. Institute for Fiscal Studies Briefing Note BN296 London: IFS.
- RAND Europe/ HMCLG (2018) *Assessing the impact of changes to the local audit regime: scoping and baselining study Final Report*. London: MHCLG.
- Redmond, T. (2020) *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*. London: MHCLG.
- Redmond T (2019). *Review of local authority financial reporting and external audit: call for views*. London: TSO.
- Sandford, M. (2020). *Local Authority Financial Resilience*. Briefing paper no. 08520. London: House of Common Library
- Travers, T. (2021) Council tax needs more than a 'fair funding review' Local Government Chronicle. 15/1/2021. Available at [Tony Travers: Council tax needs more than a 'fair funding review' Local Government Chronicle \(LGC\) \(lgcplus.com\)](https://www.localgovernmentchronicle.com/news/council-tax-needs-more-than-a-fair-funding-review) [Accessed 17 March 2021].

Corresponding Author: Pete Murphy, Nottingham Business School, Nottingham Trent University. 0115 848 8092/07775 877949 peter.murphy@ntu.ac.uk